

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 DODE-00 PM-03 H-02 L-03 PA-01 PRS-01 AGR-05

FEA-01 /094 W

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P R 251930Z JUN 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 5637

INFO AMEMBASSY QUITO

AMEMBASSY SANTIAGO

C O N F I D E N T I A L LIMA 5081

EO 11652: GDS

TAGS: EGEN, PINT, PE

SUBJ: GOP WAGE/PRICE PACKAGE APPEARS TO BE ENCOUNTERING
DIFFICULTIES

REFS: A) LIMA 4958, B) LIMA 4920

1. SUMMARY: GOP CABINET CONTINUES TO HAVE DIFFICULTIES
IN FINDING SUITABLE AGREEMENT ON VARIOUS ASPECTS OF THE
WAGE/PRICE/SUBSIDY PACKAGE. IT NOW APPEARS THAT PRESIDENT
VELASCO MAY HAVE INTERVENED DIRECTLY LAST WEEK, REQUESTING
FURTHER STUDY PRIOR TO FINAL PROMULGATION OF THE PACKAGE.
GOP TECHNICIANS TELL US THAT THE PACKAGE SHOULD BE COMING
OUT THIS WEEK, BUT WELL-INFORMED JOURNALIST AND IMF
REPRESENTATIVE THINK THAT THE PACKAGE MAY BE DELAYED, AND
IT IS POSSIBLE THAT IT MAY BE ANNOUNCED PIECEMEAL, WHICH
COULD WELL UNDERCUT FINANCE MINISTRY'S DESIRE FOR A
COORDINATED APPROACH TO THESE ISSUES. IN THIS REGARD,
MINES MINISTER ANNOUNCED THAT THE FINAL STUDY ON GASOLINE
SUBSIDIES WILL BE MADE PUBLIC NO LATER THAN THE END OF
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THE MONTH. END SUMMARY.

2. FINANCE MINISTER AND NATIONAL PLANNING INSTITUTE TECHNICIANS HAVE TOLD US THAT THE ECONOMIC POLICY PACKAGE WAS APPROVED BY THE CABINET JUNE 17, AND THEY EXPECT IT TO BE PROMULGATED THIS WEEK. THEY SAY THAT WAGE INCREASES WOULD BE PROPORTIONALLY GREATER FOR LOWER-SALARIED WORKERS. PACKAGE ALSO CONTAINS LIMIT OF S/.70,000 MONTHLY FOR ALL EXECUTIVES BOTH PUBLIC AND PRIVATE, AND CONTEMPLATES A WAGE/PRICE FREEZE AFTER ITS IMPLEMENTATION. GASOLINE PRICES WOULD APPROXIMATELY DOUBLE TO S/.15 AND S/.30 FOR THE TWO GRADES OF GASOLINE. FERTILIZERS MIGHT CONTINUE TO BE SUBSIDIZED. LOCAL IMF REPRESENTATIVE, HOWEVER, TOLD UP THAT ECONOMIC PACKAGE HAS GONE THROUGH MORE THAN THIRTY REVISIONS SINCE FEBRUARY AND THAT FINANCE MINISTRY OFFICIALS HAVE BEEN REVISING IT FURIOUSLY DURING LAST FEW WEEKS, PRINCIPALLY BECAUSE THE CABINET CANNOT AGREE ON THE FIGURES. LATTER ALSO SAID THAT THE PHYSICAL REAPPEARANCE OF PRESIDENT VELASCO AND HIS CONSEQUENT INVOLVEMENT IN OVERSEEING REVIEW OF THE PACKAGE HAS FINANCE MINISTRY OFFICIALS CONCERNED THAT THEIR COORDINATED WAGE/PRICE/SUBSIDY/INTEREST RATE POLICIES MAY BE CHEWED UP PIECEMEAL WHEN THE PRESIDENT COMES TO MAKE HIS FINAL DECISIONS. HE ALSO SAYS THAT ORIGINALLY THE FINANCE MINISTRY HAD PREDICTED THAT SAVINGS FROM REDUCTIONS OF SUBSIDIES WOULD MORE THAN COVER PROJECTED WAGE INCREASES, WITH SURPLUS LEFT OVER FOR USE FOR GOVERNMENT INVESTMENT AND EXPANSION OF DOMESTIC COMMERCIAL CREDIT. THIS, HE MAINTAINS, IS NO LONGER THE CASE, WHICH MAY BE ONE OF THE PROBLEMS THE CABINET IS NOW CONFRONTING. IMF REPRESENTATIVE ALSO BELIEVES IT MAY TAKE SOME TIME BEFORE THE FINAL PACKAGE EMERGES UNLESS THE CABINET CAN CONVINCE THE PRESIDENT TO ACT DECISIVELY.

3. A WELL-INFORMED JOURNALIST WITH CLOSE TIES TO PALACE SOURCES SAYS THAT PRESIDENT VELASCO REJECTED THE ECONOMIC POLICY PACKAGE LAST WEEK AND ORDERED THE COUNCIL OF PRESIDENTIAL ADVISORS (COAP) TO RESTUDY THE OPTIONS BEGINNING JUNE 21. JOURNALIST SAID, HOWEVER, THAT COAP DID NOT MEET ON JUNE 22 AND CONFIRMED RUMORS TO THE EFFECT THAT THERE WOULD BE NO CABINET MEETING JUNE 24 BECAUSE IT WAS A PARTIAL HOLIDAY. WE UNDERSTAND THE CABINET MAY MEET JUNE 26.

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4. JOURNALIST SAID THAT "RADICAL-MODERATE" SPLIT IN CABINET RANKS SHOWED ITSELF AT THE CABINET MEETING, DURING ACRIMONIOUS DEBATE JUNE 17, WHEN THE CABINET DECIDED TO FINALLY SEND THE PACKAGE TO THE PRESIDENT. HE NOTED THAT THE RADICALS WERE CONCERNED ABOUT THE IMPACT OF THE REDUCTION OF SUBSIDIES AND PRICE INCREASES, BUT ALL FINALLY AGREED TO SUBMIT IT TO THE PRESIDENT. JOURNALIST SAID HE DOUBTED WHETHER

THE CABINET COULD REFOCUS RAPIDLY ON THE PACKAGE SINCE THE MINISTERS ARE PREOCCUPIED WITH POLITICAL PROBLEMS INCLUDING LAND INVASIONS, THE FAR-LEFT, STRIKES AND THE SUCCESSION ISSUE. HE THEREFORE PREDICTED IT COULD TAKE SEVERAL WEEKS FOR COAP AND THE MINISTERS TO RESUBMIT THE PACKAGE IN FINAL FORM.

5. COMMENT: OUR JOURNALIST SOURCE HAS CLOSE TIES TO THE PRESIDENTIAL PALACE AND IS HIGHLY SENSITIVE TO THE POLITICAL NUANCES OF THE PERUVIAN SCENE. WHILE SOMETIMES PRONE TO EXAGGERATION, HIS VERSION OF EVENTS RINGS TRUE AND IS NOT NECESSARILY CONTRADICTED BY THE TECHNICIANS' ACCOUNT. (WE DOUBT THEY HAVE ACCESS TO SIMILARLY WELL-INFORMED SOURCES.) JOURNALIST'S ACCOUNT ALSO FITS WITH IMF REPRESENTATIVE'S VIEW THAT PRESIDENT VELASCO (SEE REF A) MAY WELL HAVE EXERCISED HIS VETO POWER OVER THE PACKAGE--A PACKAGE WHICH RUNS COUNTER TO THE MILITARY'S AND THE PRESIDENT'S TRADITIONAL APPROACH TO A WAGE/INCOME POLICY. IT ALSO POINTS UP THE MODERATE-RADICALS PERSUMABLY ARGUING IN FAVOR OF A GRADUAL REDUCTION IN SUBSIDIES, PARTICULARLY ON GASOLINE, BECAUSE OF ITS EVENTUAL IMPACT ON THE VITAL TRANSPORT SECTOR AND ON IMPORTANT SEGMENTS OF THE LEFTIST LABOR SECTOR WHICH HAVE SUPPORTED THE GOP TO DATE. IT IS NOT CLEAR, HOWEVER, THAT THE RADICALS' ALLEGED OPPOSITION, OR AT LEAST RELUCTANCE, ABOUT IMPLEMENTING THE PACKAGE REPRESENTS A REDUCTION IN THEIR GENERAL SUPPORT FOR THE PRIME MINISTER. IN FACT, IT IS QUITE POSSIBLE THAT SEVERAL MAY SUPPORT MORALES BERMUDEZ WITHOUT FAVORING SPECIFIC ASPECTS OF THE RATHER ORTHODOX ECONOMIC PACKAGE WHICH HE AND THE FINANCE MINISTRY HAVE PROPOSED. IN SUM, IT SEEMS THAT PRESIDENT VELASCO, AT LEAST ON THIS FRONT, HAS DECIDED TO BECOME INVOLVED DIRECTLY WITH AS YET UNFORESEEN CONSEQUENCES FOR THE ECONOMIC PACKAGE WHICH MAY INDEED DRIBBLE OUT PIECEMEAL. AS THE IMF REPRESENTATIVE REMARKED TO US, WHEN THE PRESIDENT HAS TO

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CHOOSE BETWEEN "ECONOMIC GROWTH" AND THE "PERUVIAN REVOLUTIONARY PROCESS," HE INVARIABLY CHOOSES THE LATTER.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: WAGES, ECONOMIC PROGRAMS, PRICES, POLITICAL SITUATION, SUBSIDIES
Control Number: n/a
Copy: SINGLE
Draft Date: 25 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LIMA05081
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750220-0876
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750618/aaaaapxh.tel
Line Count: 157
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 LIMA 4958, 75 LIMA 4920
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 08 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 SEP 2003 by CunninFX>; APPROVED <14 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOP WAGE/PRICE PACKAGE APPEARS TO BE ENCOUNTERING DIFFICULTIES
TAGS: EGEN, PINT, PE, (VELASCO ALVARADO, JUAN)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006